



PERFORMANCE FUNDING: HISTORY, DESIGN PRINCIPLES & POLICY IMPLICATIONS

**VIRGINIA HIGHER EDUCATION ADVISORY
COMMITTEE**

June 17, 2013

Presented by:

Jimmy Clarke, Ph.D. & Martha Snyder
Senior Associate Senior Associate

1156 15th Street NW, Suite 610, Washington, DC 20002
202.547.2222 (phone) • 202.547.2224 (fax)

www.HCMstrategists.com

**ALIGN. ADVOCATE.
ADVANCE.**

AGENDA

- History: Early attempts at performance funding
- Policy rationale and current status
- Common components of today's models
- Research on impacts
- States at-a-glance

FUNDING MODELS FOR HIGHER EDUCATION

- Historic
 - Allocation based on prior levels of funding
 - Adjusted +/- based on available funds
 - Challenge: Equity in institutional funding
 - NOT a finance policy
- Enrollment
 - Number of students enrolled at census date
 - Seen some shift in funding course enrollment to funding course completion (type of performance model)
 - Challenge: seldom “fully funded” by state
- Performance/Outcome
 - Funding of institutions for achieving outcomes
 - Bonus or embedded in traditional allocation
 - Challenge: Sustainability, funding
- Combination

EARLY ATTEMPTS AT PERFORMANCE FUNDING

- “Performance Funding 1.0”
- Twenty-six states adopted performance funding between 1979 and early 2000’s
- Largely abandoned: design flaws, funding instability, change in policy/political environment



PF 1.0: DESIGN & IMPLEMENTATION FLAWS

- **Multiple, unaligned priorities:** Not focused on overall statewide goal or set of priorities
- **Complicated & Burdensome:** too many metrics; reliance on insufficient or poor data; placed heavy burden on institutions
- **Countered access agenda:** did not recognize greater investment required for at-risk or under-represented students
- **Lack of institutional consultation:** Done to them, not with them

PF 1.0: DESIGN & IMPLEMENTATION FLAWS

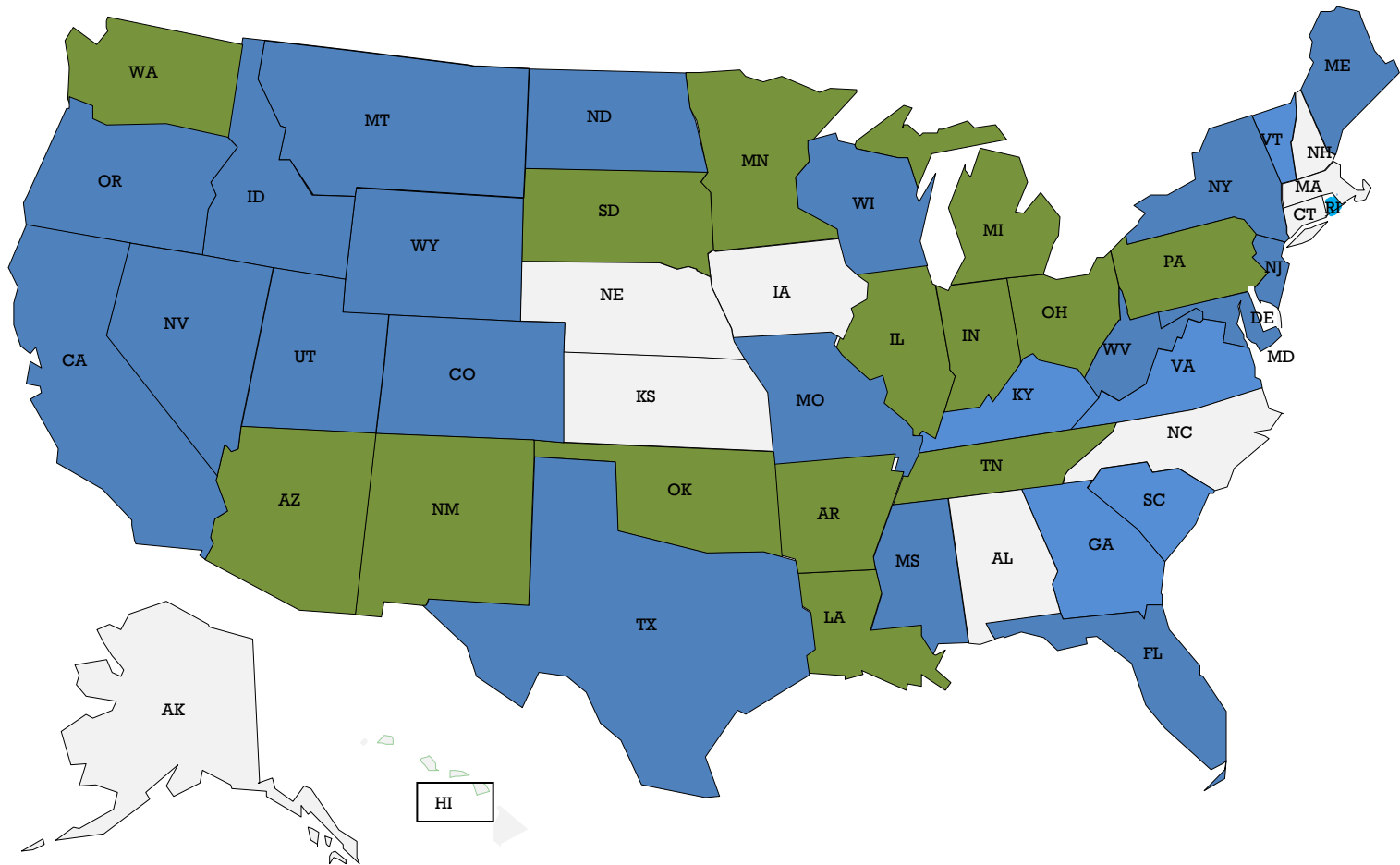
- **One-size-fits-all:** did not recognize differing institution missions
- **Funding challenges:**
 - Not enough to capture institution attention or drive priorities;
 - first to go in tough budget times; OR
 - Too much, too soon (converged with poor design and resulted in large shifting of funds between schools)
- **Original policy supporters left:** No sustaining of the agenda. Not integrated into finance model as a policy tool.

PERFORMANCE FUNDING TODAY

- “Performance Funding 2.0”
- Policy Rationale:
 - Align state investment with state priorities for higher education
 - Drive institutional behavior:
 - Campus resource allocation
 - Programmatic evaluation and change
 - Alternative delivery models and transfer policies

(as of 6/16/2013, source: NCSL & HCM Strategists)

 Discussions/Interest



Performance Funding 2.0: Framework

- Lessons and research into earlier models have resulted in better design and implementation of more recent models.
- Common broad parameters across states; details differ to meet state needs and circumstances



PF 2.0: Common Components for Development, Design & Implementation

1. Begin with a state goal/clear policy priorities

- Ex) Virginia: TJ 21 Legislation
 - 100,000 new undergraduate degrees by 2025
 - Increased: enrollment, degree completion, retention, research, STEM, efficiency

2. Use a simple approach

- Limited metrics all tied to the state goal/priorities
- Deal with intricacies through the weighting and applying of metrics

PF 2.0: Common Components for Development, Design & Implementation

3. Account for institution differences
 - Missions differ, so should performance measures
 - Collaboration should be promoted (you want to enhance/support missions not incentivize blurring of the lines)
4. Include incentives for graduating at-risk or priority students
 - Essential to many states reaching their college completion and attainment needs yet are often more costly for institutions to educate
 - Help ensure success and access is not either/or
5. Make the Money Meaningful
 - Equal to 5 percent or more of state allocation
 - Build in evaluation every couple years (review metrics, weights, etc.) but allow time to play out

PF 2.0: Common Components for Development, Design & Implementation

6. Intentional Stakeholder Buy-In:

- Policymakers can provide a framework – clearly defined goals, priorities and expectations for implementation (amount and timeframe)
- **but institutions should be consulted** on the technical aspects – metrics, weighting, etc.

7. Ensure stability in funding, but NOT hold-harmless:

- Phase-in allocation amounts
- Use data averages (typically three years) to ensure stability and predictability

Performance Funding: Research & Impacts

- Focused mostly on 1.0 policies; beginning to track impact on 2.0 policies
- Research is almost entirely focused on intermediate (institutional change) impacts
- Limited information/ability to understand ultimate impact (scarce research)

Performance Funding: Research & Impacts

- + Change in colleges' awareness of state priorities & own performance
- + Reported increase in use of data in institutional planning
 - identify student barriers
 - align institution policies/investments
- + Academic program improvements
 - Academic departments: staffing and structure changes
 - Academic delivery: program structure (remedial education)

Sources: Dougherty & Hong, 2006; Dougherty & Reddy, 2011, 2013

Performance Funding: Research & Impacts

+ Student Services

- Registration, graduation procedures, financial aid
- First-year retention programs
- Targeted student advising, tutoring and supplemental services
- Job placement services

- Concern over:

- Quality
- Instability of funding
- Gaming system: Setting low goals
- Uneven knowledge of performance funding across and within colleges (not filtering to faculty)

Sources: Dougherty & Hong, 2006; Dougherty & Reddy, 2011

State Efforts At-A-Glance

- Driving forces/political context
- Status of development/implementation
- Development and design principles

State Efforts At-A-Glance: INDIANA

- Commission-led; implemented since 2007
- Authorized in budget every two-years
- Both sectors: common and differing metrics
 - Completion
 - On-time completion
 - Remedial education
 - Institution-specific metric
 - STEM
- Measures improvement using rolling data averages
- 5% of state allocation → 6.5% in FY 2015

State Efforts At-A-Glance: MISSISSIPPI

- Legislatively mandated in 2012
- Education Achievement Council
- Separate 2- and 4-year efforts
- 4- year model includes:
 - Operational (base) support
 - Course completion
 - Priority metrics (10 percent):
Attainment/completion, student progress,
research, productivity (degrees/100 FTE)
 - Phase-in new formula with additional dollars, FY 2014

State Efforts At-A-Glance: TENNESSEE

- Governor led/legislatively adopted
 - Complete College Tennessee Act (2009)
 - Formula Review Committee (included campus leadership)
- 2-and 4- year metrics, common categories:
 - Progression
 - Completion
 - Efficiency/Institution
- Differentiation within sectors (weights)
- 100 percent of enrollment allocation
 - ~ 85 percent of all state allocation to institutions
- At-risk priority
 - 40% premium for adult and low-income students

Additional Resources

- Community College Resource Center

<http://ccrc.tc.columbia.edu>

- HCM Strategists:

- Report for Indiana Commission on Higher Education

http://www.hcmstrategists.com/content/Indiana_Report_12.pdf

- Report for West Virginia Select Committee (to be sent)

- Southern Regional Education Board

- Essential Elements for Outcomes-Based Funding

http://publications.sreb.org/2012/Outcomes_Based_Funding.pdf